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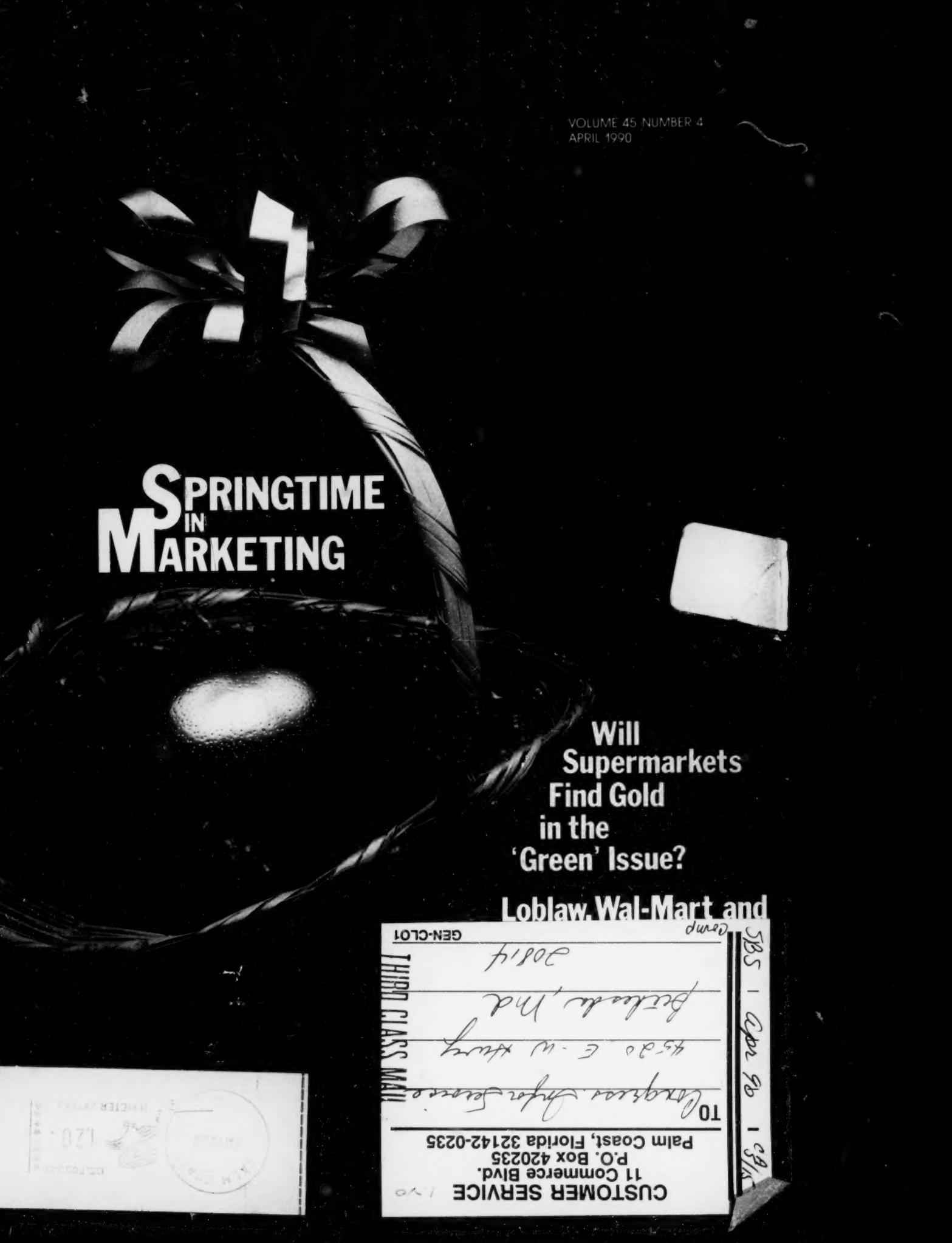

SPRINGTIME IN MARKETING

Will Supermarkets Find Gold in the 'Green' Issue?

Loblaw, Wal-Mart and

CUSTOMER SERVICE
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Palm Coast, Florida 32142-0235

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SUPERMARKET BUSINESS

APRIL 1990 VOLUME 45/NUMBER 4

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SPRINGTIME IN MARKETING MIKE DUFF **15**

Will supermarkets find gold in the "Green" issue? Loblaw, Wal-Mart and others think so. But marketers of Green products must cope with a lack of consensus among experts on the best ways to help the environment.

FROM MERCHANDISE TO MARIACHI, ALL THE STORE'S A STAGE DAVID LITWAK **27**

A new Houston Fiesta Mart lives up to its name—and attracts customers—with a thematic setting that makes shoppers feel they are at a party in Old Mexico.

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SERVICE BAKERY: EIGHTH ANNUAL OPERATIONS REVIEW **1A**
DAVID LITWAK AND JANET TORRES CEPEDA

More units are operating, and sales are higher ... but the rate of growth has declined from its 1988 peak.

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Cover Photo: DiMicco/Ferris Studio

AN IMMODEST PROPOSAL

By Ken Partch, Editor-in-Chief

Let's put a value on garbage. Once again, I am convinced that if we all put our minds to it we can find a way to employ the message of Adam Smith: that the free market system can show us the way. Put a value on garbage and it will find a market.

For example, all supermarkets engage renderers to pick up their meat trimmings and make money in return. They use it to make soap or something. If all the discarded auto tires in America could be turned into Hula Hoops, the problem of discarded auto tires would disappear overnight. You might then have a problem of discarded Hula Hoops, but one thing at a time.

I have a neighbor who stacked auto tires around his mailbox post until the town told him to get rid of them, but at least he was trying. From what I can see in my travels, most people take their old auto tires to the railroad tracks and discard them along with their old refrigerators and TV sets. Perhaps the tire companies should do what the oil companies do on their oil containers and simply inscribe a legend that says: "Dispose of drained oil properly." That takes care of that.

But seriously, the laws of physics clearly state that energy can neither be created nor destroyed. That being the case, it behooves us to get cracking and find something useful to do with this garbage. There's energy in there someplace and we've got to find it.

In the meantime, there are other ways to handle a problem. If you can't enforce or employ the law of conservation of energy, perhaps you need another law. I hesitate to say it in this worldwide mood of freebooting marketing, but you could simply outlaw garbage. That is to say, we could simply ban the entire concept of garbage.

If you want to make autos, auto tires or refrigerators, that's fine and dandy; after the consumer has consumed its stated value as a refrigerator, it comes back to its original creator—to GE or whomever. And you know what? I bet GE or Pirelli or GM would find a way to use up that old refrigerator, that old tire or old auto.

Isn't it interesting how so many of us thought the fault lay not with us but with our soft drink and beer bottlers? We thought we would get away cheap and still keep our virtue.

Of course the consumer would have to share in the cost of this auto- or tire- or refrigerator-return, in terms of an up-front deposit. There would be a hardship at first, until we all got used to the idea, but in short order there would be an end to burnt-out wrecks alongside the nation's superhighways, railroad tracks and river beds.

We simply have to get the idea of a disposable inventory of used goods out of our heads. It's yours, baby. It's yours for life, or until it goes back to its original creator. That's something to think about, isn't it? I wonder if we would be so quick to fight wars if we couldn't just discard perfectly good airplanes and trucks and tanks by driving them off the cliffs of the Marianas, or wherever, rather than boating them back home. (I understand we've had to send cleanup crews to Antarctica to clean up the refuse left behind from previous explorations.)

And that goes for the supermarket, too. Suppose all those groceries and all that packaging that goes out the front door returned to the supermarket's back door to be returned to the original owners? If that happened, I bet we'd soon be wrapping fish in yesterday's newspaper rather than in lily- white butcher paper, overwrapped in plastic film and tape.

But back to Adam Smith. The problem with garbage in the U.S. of A. is that garbage is either cheap or worthless. The French have been carrying their baguettes of bread home every day under their arms, in their newspapers or in their shopping bags, for centuries. They would probably not do it any other way. I have never heard of a Frenchman who complained of *les microbes* in or on his bread. I don't suggest that we start carrying our own bags to the supermarket, but ...

If disposable anything was forced to have an arbitrary value placed on it, the impact—and the pristine clarity of the message—of the so-called bottle bills would arrive like the clang of doom.

Isn't it interesting how so many of us thought the fault lay not with us but with our soft drink and beer bottlers? We thought we would get away cheap and still keep our virtue.

Alas, we could not. Our garbage just won't go away, so to speak. Like the myth of the Flying Dutchman, who is forced to sail around the world forever and cannot land, we cannot land anywhere without our garbage. It will follow us wherever we go.

Let's find a use for it, put a value on it, or at least a deposit on it. After all, it is ours. ■

SUPERMARKET BUSINESS

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Store Planning: **David Rogers**
Washington: **John Scaldin**
GM/HBA: **Francis Wilkins**
Management: **Jack Cohen**

PUBLISHER: **Jeffrey A. Schaeffer**

ASSOCIATE PUBLISHER: **Carol Fenwholt**

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ADVERTISING SALES:

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CHICAGO:
VICE PRESIDENT, NATIONAL ACCOUNTS: **Dave Wishard**

REGIONAL SALES MANAGER: **John Sonderegger**
1821 Walden Office Sq.
Suite 333
Schaumburg, Ill. 60173
708-397-6700

WEST COAST: **Sue Marrill**
16133 Ventura Blvd., Suite 1270
Encino, Calif. 91436
818-783-5888

VICE PRESIDENTS: **Carol Fenwholt**
Kenneth P. Partch

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CHAIRMAN: **Robert Riordan** PRESIDENT & CEO: **Paul McPherson** PRESIDENT-MARKETING/SERVICE DIVISION: **Jeffrey A. Schaeffer**

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SUPERMARKET BUSINESS

instore BUSINESS

EIGHTH ANNUAL OPERATIONS REPORT

SERVICE BAKERY REVIEW

Despite more units operating and higher sales, increases in bakery sales have slowed. Growth, which peaked in 1988, continues at an even pace.

BY DAVID LITWAK AND JANET TORRES CEPEDA

Periods of intense growth are hard to sustain, even under the best of circumstances.

They are usually few and far between, and generally require a period of recovery in which the growth spurt is absorbed back into the industry.

Call 1989 a period of recovery for the instore bakery. It was a year in which healthy growth did occur, but to a far lesser degree than the nearly 28 percent sales jump of the year before.

The instore industry had a sales increase of 8.7 percent in 1989, bringing the department's annual sales up to $6.64 billion from the $6.11 billion level of 1988. While this is certainly not bad, it is somewhat anticlimactic given 1988's results.

Part of the reason for the lower growth rate was the decline in the number of bakery units launched during 1989. Last year only about 190 new bakery units were opened, while in 1988, 1,180 new bakeries were opened. That's about 1,000 more new bakeries in '88 than in '89.

Obviously, almost 1,200 new bakeries cannot continue to open in supermarkets every year, especially since this number is over and above those that replace units that have closed.

CENSUS 3A

SALES, MARGINS & PRODUCT MIX 4A

LABOR & SERVICE 6A

SPACE, LOCATION & EQUIPMENT 10A

PRODUCTION & SUPPLY 12A

MERCHANDISING & CUSTOMERS 12A

There are now bakeries in 65.9 percent of all supermarkets. Given this high proportion of stores with bakeries, it is probable that we are approaching the saturation point of bakery units, and that unit growth will slow even more in the future.

But the number of new units alone does not explain the slowing of bakery sales growth. In 1988 weekly sales per bakery unit rose by 20.3 percent, to $5,868; while in 1989, weekly sales continued to rise, but only by 7.6 percent, to $6,311. A vast majority of bakery operators (86 percent) report higher average sales in their departments. The average increase is on the order of 10 percent.

The important thing to remember is that bakeries have reached the point that they are no longer automatic customer draws. To have a bakery is no longer enough, since chances are that your competition will also have bakeries. The quality of the product of that bakery is now of paramount importance.

Bakeries as profit centers

More and more, operators are looking at their bakeries as profit centers. Seventy-eight percent of the retailers indicated that they consider their bakery

BAKERY CENSUS

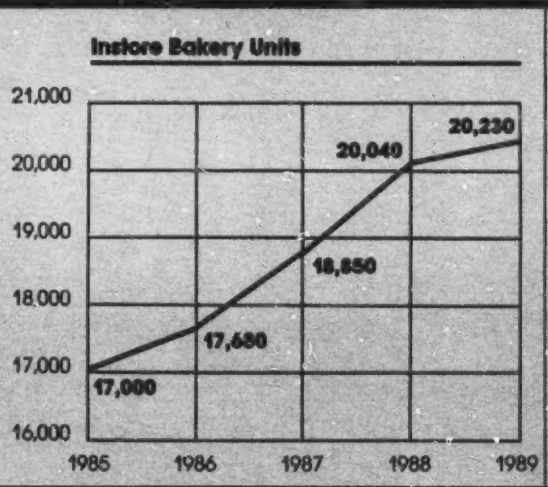
The instore bakery continues to grow in both sales and number of units. With units in almost 66% of all supermarkets, the department may be nearing its peak penetration. Building up sales per unit is the next challenge.

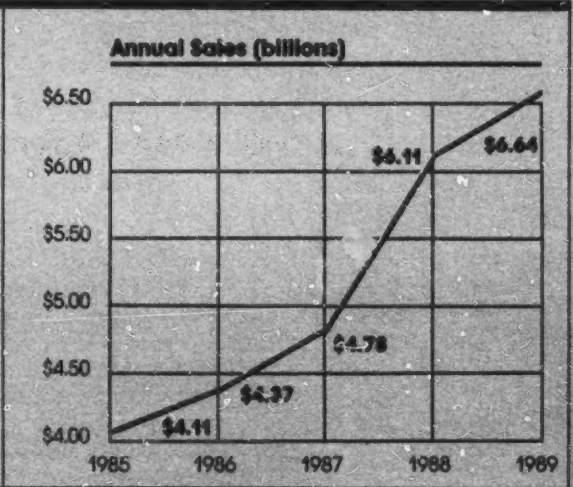
According to a very old joke, bakers are really rolling in dough! If not the baker, then certainly the instore bakery. Sales in 1989 rose to over $6.6 billion dollars, jumping 8.7% from 1988 levels. Given that there are now 20,230 bakery units operating, average weekly sales per unit were up to $6,311.

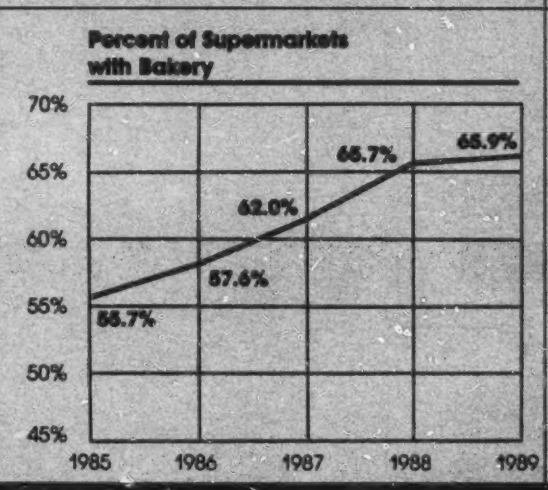
Sales and units, despite having a very good year, did not grow at nearly the same levels that they had in 1988. Consumers appear to have settled into a buying pattern when shopping the instore bakery, a pattern that is likely to bring with it a more stable pattern of growth in the coming years.

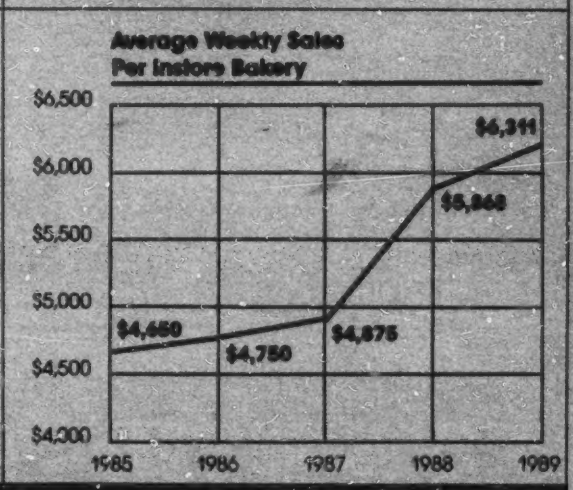
Is Portion of Store Overhead Allocated Back to Instore Bakeries?

Yes	52%
No	48%
Total	100%









departments to be as much a profit center as a traffic draw or image builder.

With the renewed emphasis on profitability, many departments are beginning to place stricter controls on costs, production yields and shrinkage.

The incentive to control costs and run a profitable bakery department is definitely there. Bakeries that are run as profit centers contribute an average of 5.2 percent of the profits of the total store in which they are located, compared with an average of 2.6 percent of total store sales.

The average gross margin of products in the bakery section now stands at 53.2 percent, which is down slightly from 54.9 percent last year. Even with the small decrease, this is a very substantial margin, in comparison with other areas of the store.

It is this potential profitability that has caused bakeries to be so popular with retailers. Not only have the departments become almost 'must-haves' in terms of customer draw, but stores now compete with each other through their bakeries.

That the bakery has come into its own is undeniable. The bakery is no longer an adjunct to the deli section. Seventy-five percent of the units are run separately from the deli department, at least on the store and merchandising levels.

Producing the goodies

Production in a bakery comes down to three essential ingredients: method, equipment and labor. Clearly, all three are intertwined. In a sense, equipment and labor depend on the method of production chosen.

In most bakeries the products are made from a combination of scratch, mix, bake-off, and thaw and sell. In some instances, finished products are brought in from another bakery.

Scratch baking is often confused with mix production. If they are not simply baking off a formed product, some operators will say, especially to their customers, that they make their products from scratch. To these operators, any mixing of batter or dough constitutes scratch production.

As reported by bakery operators, the major method of production for 43 percent of the instore bakeries is bake-off. Scratch/mix is the major method for 29 percent, while 25 percent report that they use a combination of methods for the majority of their products. Thaw and sell products fill the majority of the bakery cases in about 3 percent of all departments.

Despite the reliance of many units on bake-off and thaw and sell, the average bakery is well equipped. The large amount of equipment present in so many bakeries reflects the varied approach to production that most departments seem to take. Equipment also has a major impact on labor.

The number of employees in the bakery really hasn't changed in the last year, but there has been some shifting in the type of employee. There are now the equivalent of 7.8 full-time employees in the section, down slightly from 7.9 last year.

There is more of a tendency to use full-time employees (4.8 in '89 vs. 4.6 in '88) than part-time. This is due to both the greater number of sophisticated products that the units are produc-

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BAKERY SALES, MARGINS & PRODUCT MIX

Increased dollar sales again brought the bakery higher profits in 1989. A well-run department will usually contribute more than 5% of the profits of the total store.

Average Weekly Sales

Mean **$6,311** Median **$5,741**

Weekly Sales By Format

	Mean
Super Store	$10,173
Superwarehouse Store	$6,372
Conventional	$5,111

Change in Dollar Sales
(1988 vs. 1987)

Higher	86%
No change	4
Lower	10
Total	100%
Average Reported Increase	10%

Share of Total Store Sales

Mean **2.6%** Median **2.4%**

Percent of Total Sales by Format

Super Store	2.4%
Superwarehouse Store	2.1
Conventional	3.5

Contribution to Store Profits

Mean **5.2%** Median **5.5%**

Percent of Store Profits

Less than 3.0%	18%
3.0–4.9	27
5.0–6.9	11
7.0 or more	44
Total	100%

Gross Margin

Mean **53.2%** Median **55.4%**

Less than 40%	31%
40-49	22
50-59	31
60 or more	16
Total	100%

Bakery Items/ Lines Most Frequently Dropped or Decreased

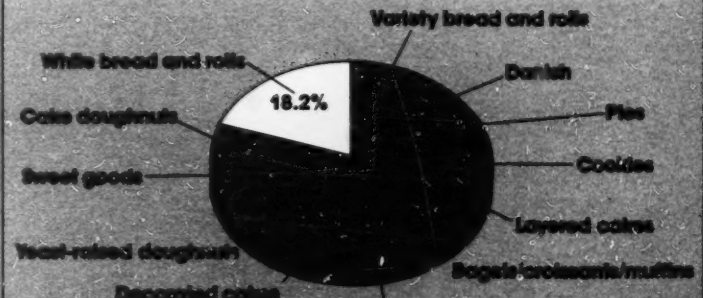
—Doughnuts
—Danish
—Croissants
—Sweet Goods

Bakery Items/ Lines Most Frequently Added or Increased

—Muffins
—Cookies
—Oat Bran Products
—Grain Breads
—Decorated Cakes
—Bagels
—Fruit Pies

Portioning Out the Instore Bakery Sales Dollar

Share of Sales



Eighty-six percent of the bakeries saw higher dollar sales last year, with the average increase on the order of 10%. Despite a small drop in the average gross margin (down to 53.2% from 54.9%), net profitability was up slightly (0.3%).

While breads and rolls still dominate department sales, the more sophisticated dessert items continue to increase their share of the bakery pie. Once again, 'healthier' products were featured by more units.

BAKERY LABOR & SERVICE

It costs just a little more to man the average bakery. The cost of labor rose last year to 31.9% of sales. Employees are more efficient, with sales per employee increasing to over $800 per week.

Number of Employees

Full Time	4.8
Part Time	6.0
Full Time Equivalent*	7.8

Full-Time Equivalent Employees

1–3	8%
4–5	15
6–7	49
8–9	20
10 or more	8
Total	100%

*2 part-time = 1 full-time employee

How Much for Labor

Labor as a Percent of Instore Bakery Sales

Mean	31.9%
Median	29.8%
Under 26%	16%
26–30	40
31–35	19
36–40	15
Over 40	10
Total	100%

Average Weekly Sales Per Employee*

Mean	$809
$500 or less	4%
$501–$750	31
$751–$1,000	46
Over $1,000	19
Total	100%

*Full-time equivalent employees

Cake Decorating

Percent of Stores Offering

Offer	85%
Do not offer	15%

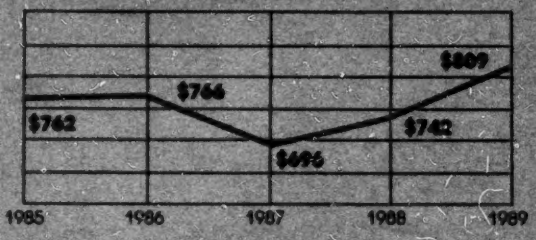
Time for Prep and Service

Breakdown of Labor Hours

Customer service	44%
Other (incl. prep)	56
Total	100%

Average Weekly Sales Per Employee*

*Full-time equivalent employees



Employees are spending slightly less time in preparing products, and more in displaying them and in waiting on customers. Operators report that sales from self-service packaged items and service items are up, while self-service bulk are down.

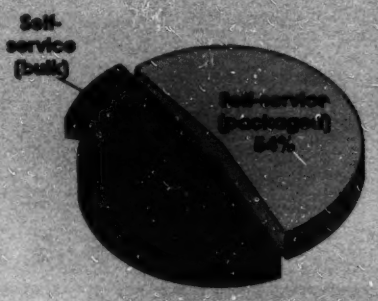
Service vs. Self-Service

Percent of Stores Offering*

Service	83%
Self-service (packaged)	100
Self-service (bulk)	44

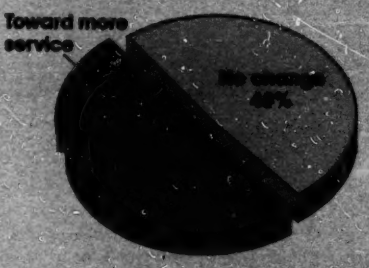
*NOTE: Includes multiple answers

Percent of Instore Bakery Sales



Trends in Service

Direction Instore Directors Expect Their Operations to Move



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Self-Service Equipment

Self-Service Equipment	Percent of Stores That Have
Display tables for packaged self-service	96%
Self-service racks (or shelves) without doors	69
Roll bins with tongs for self service	46
Self-service racks with glass doors	40
Hot Coffee & Beverages	39
Free-standing self-service racks (on wheels)	36
Self-service refrigerated cases	29

Self-Service Sales

(% Sold Through Self-Service)

Rolls	57%
Breads	51
Muffins	46
Pies	45
Donuts	42
Decorated Cakes (Shelf temp.)	37
Decorated Cakes (Refrigerated)	35

Since the size of the average bakery department remained about the same last year, the increase in total sales raised the average sales per square foot to $4.02. This is a new high for the instore bakery, a department where most of the space is backroom production space.

ing, and the unavailability of part-time workers in many areas.

As a result, today's bakery labor is somewhat more expensive than it was in 1988. Last year, instore bakeries spent 31.9 percent of sales in labor, compared with 31.2 percent in 1988.

As a result of production methodology and equipment, employees are spending more time with customers. Forty-four percent of employee time now goes into customer service. About 35 percent of bakery sales now comes from the service counter, with 54 percent coming from self-service sales of packaged products. Only about 11 percent is sold through self-service bulk.

The good news about labor is that it has gotten much more efficient. While the cost of labor as a proportion of sales has gone up slightly (2.3 percent), the average weekly sales per employee have risen by 9 percent. On average, each full-time equivalent bakery employee accounts for $809 in sales each week.

This increase in weekly sales per employee is due to the employee's spending more time 'selling' the customers, as well as the fact that more product is available for the customer.

Customers steady—unfortunately!

It's the same old nagging problem. How do we get more customers to shop the bakery? After a significant gain in customers in 1988, the instore bakery managed to get virtually no additional store customers to make bakery purchases.

The customer traffic count showed that 27.9 percent of store shoppers made bakery stops last year. The figure was 27.3 percent in 1988. At least the bakery managed to hold on to the customers it did gain in 1988.

Whether there are still a great number of untapped store customers out there, or whether this is more of a statistical problem having to do with the frequency of bakery shopping versus store shopping, can only be determined when more information is gathered on individual shopping habits.

Size of Department

Square Feet of Space

Mean	1,569 Square Feet
Median	1,650 Square Feet

Square Feet by Format

Super Store	2,300
Superwarehouse Store	2,225
Conventional	875

Share of Total Store Space

Mean	5.2%
Median	5.3%

Percent Share by Format

Super Store	5.3%
Superwarehouse	3.8
Conventional	4.9

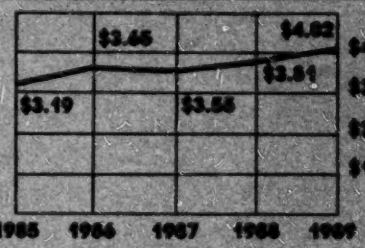
Average Weekly Sales Per Square Foot of Space

Mean	$4.02

Average Weekly Sales Per Square Foot of Space by Format

Super Store	$4.42
Superwarehouse	$3.07
Conventional	$5.84

Average Weekly Sales Per Square Foot of Space

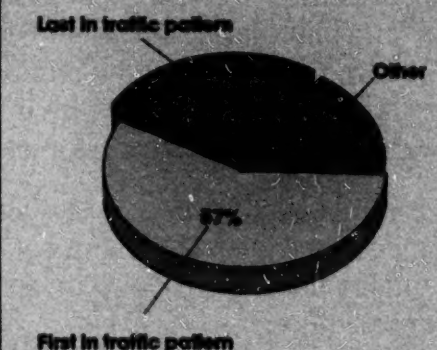


Instore bakeries continue to occupy just over 5% of the total floor space of the store. The percentage is slightly lower for superwarehouse stores. On average, the bakery occupies 1,569 sq. ft., and can range from about 2,300 sq. ft. in superstores down to 875 sq. ft. in conventional units.

Much of this space is used in production. The spacial needs of the equipment used to make the product is a large factor in the square footage given to bakeries. Most instore bakeries have a full complement of bakery equipment, no matter what method of production they use.

About 44% of all instore bakeries are located in conventional stores. Superstores and superwarehouses are gaining in terms of the number of bakeries located in these formats. Bakeries can be a factor in any format, or in a unit of almost any size. Equipment can now be scaled to fit into most size stores.

Preferred Location for Bakery

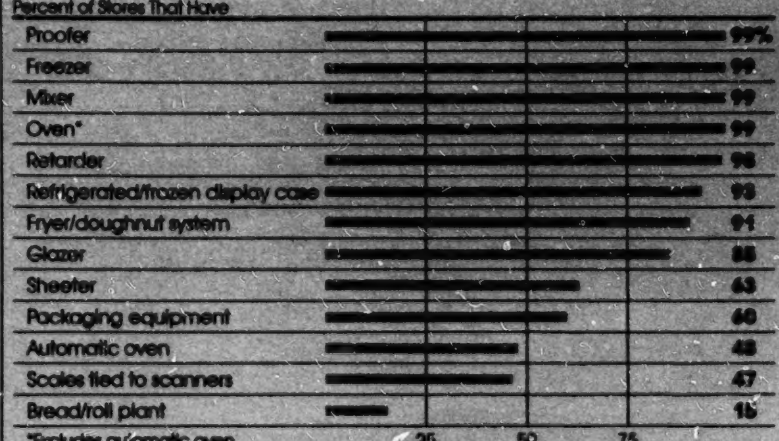


The Delibake Concept

Stores Combining Delis and Bakeries into a Joint Delibake Department	
Joint delibake	25%
Separate departments	75
Total	100%

The Well-Equipped Instore Bakery

Percent of Stores That Have



Location of Bakeries by Store Format

Percent Located In:	
Conventional	44%
Super Stores	39
Super Warehouse	17
Total	100%

BAKERY PRODUCTION & SUPPLY

The vast majority of instore operators use more than one method to produce their bakery products. The most common method of production is still bake-off. Time, available skilled labor, and a growing number of product offerings are important factors in the choice of production method; this decision often dictates one method for a group of products and another method for other products.

Forty-three percent of the bakeries report that bake-off is used for more of their products than any other method. Most of these do not use bake-off exclusively, but combine their production methods in some way. Scratch/mix production is the major method for 29%, while 25% have no single preferred method, but combine the two.

Thaw & sell products are gaining popularity among instore bakers. Three percent report that the majority of their products are of this variety.

More and more supplies are coming through the warehouse (65%), and not directly to the store. While the bulk of ingredients and supplies are still bought from bakery suppliers, more are coming either through grocery wholesalers, or direct from manufacturers.

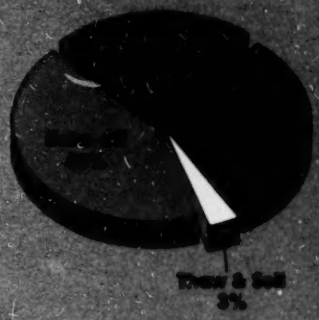
Methods of Production*

*NOTE: Includes multiple answers

	Bake-off	Mix	Scratch
Bread and rolls	76%	21%	48%
Yeast-raised doughnuts	86	86	8
Cake doughnuts	32	80	4
Sweet goods	68	39	11
Cookies	79	22	32
Pies	86	7	22
Layered cakes	32	61	22
Croissants	89	4	12
Brownies	35	54	23
Bagels	92	2	4
Muffins	39	42	23

Major Method of Production

Percent Using



Suppliers to Instore Bakeries*

Percent Using

	Bakery Distributor/ Supplier	Grocery Wholesaler	Ingredients Manufacturer	Wholesaler Baker
Bake-off	49%	49%	24%	11%
Mix	58	24	42	8
Scratch	49	28	38	1

*NOTE: Includes multiple answers

Warehouse vs. Direct Delivery

Percent of Baking Ingredients Supplied

Through warehouse	65%
Direct to stores	35
Total	100%

BAKERY MERCHANDISING & CUSTOMERS

Although enticing almost 28% of store customers to shop the bakery last year was a good achievement, there was really no increase in department traffic from the year before. If promotion, price, product mix and aroma haven't been able to increase the customer count, maybe nothing can.

The average bakery customer leaves about $.20 more in the cash register today than a year ago. The average instore bakery transaction is up to $2.02. Considering that 27.9% of all customers spend $2.02 at the bakery, it is no wonder that over 90% of the retailers consider their bakeries to be profit centers as well as traffic draws.

Sampling is still the best way to promote the bakery department, according to retailers, although most also utilize newspaper ads, circulars, and POP materials.

How Supermarket Customers Spend

Percent Who Shop the Instore Bakery

Mean 27.9% Median 28.1%

How Much They Spend

Mean $2.02 Median $1.93

Bakeries' Share of Ad Space Compared to Share of Sales

Greater	16%
Less	40
Equal	44
Total	100%

Advertising and Promotion Sell Instore Bakery

Percent Using

Sampling	93%
Newspapers	85
Point-of-purchase	78
Circulars	78
Radio	48
Television	22

Do You Consider Your Bakeries

Image/Traffic Builders	18%
Profit Centers	7
Both	75
Total	100%